

TOWN OF CHATHAM, VIRGINIA

ANNUAL FINANCIAL REPORT

Fiscal Year Ended

June 30, 2018

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Honorable Members of the Town Council
Town of Chatham, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chatham, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Specifications for Audits of Counties, Cities and Towns, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chatham, Virginia, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2018 the Town adopted new accounting guidance, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* and GASB No. 75, *Accounting for Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedules related to pension and group life insurance, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Chatham, Virginia's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2019, on our consideration of the Town of Chatham, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Chatham, Virginia's internal control over financial reporting and compliance.

Harris Harvey Neal & Co. LLP

Danville, Virginia
February 20, 2019

**TOWN OF CHATHAM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

Our discussion and analysis of Town of Chatham, Virginia's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the Town's financial statements, which begin on page 10.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 11 and 12) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements start on page 13. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. The remaining statements provide financial information about activities for which the Town acts solely as an agent for the benefit of those outside of the government.

Government-Wide Financial Statements

Our analysis of the Town as a whole begins on page 10. One of the most important questions asked about the Town's finances is, "Is the Town, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements report the Town's Net Position and changes in them. You can think of the Town's Net Position—the difference between assets and liabilities—as one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Town's property tax base and the condition of the Town's roads, to assess the overall health of the Town.

In the Statement of Net Position and the Statement of Activities, we divide the Town into two kinds of activities:

- Governmental activities—Most of the Town's basic services are reported here, including the police, fire, public works, parks departments, and general administration. Property taxes, franchise fees, and state and federal grants finance most of these activities.
- Business-type activities—The Town charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Town's water and sewer system is reported here.

Fund Financial Statements

Our analysis of the Town's major funds begins on page 13. The fund financial statements begin on page 13 and provide detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established by State law and by bond covenants. However, the Town Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The Town's two kinds of funds—governmental and proprietary—use different accounting approaches.

- **Governmental funds**—Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in the reconciliation at the bottom of the fund financial statements.
- **Proprietary funds**—When the Town charges customers for the services it provides, (whether to outside customers or to other units of the Town) these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Town's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

THE TOWN AS A WHOLE

The Town's combined net position increased 6.1 percent from the prior year. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Town's governmental and business-type activities.

Table 1
Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 1,582,363	\$ 1,325,134	\$ 2,330,231	\$ 2,284,590	\$ 3,912,594	\$ 3,609,724
Capital assets	<u>1,447,624</u>	<u>1,509,043</u>	<u>4,068,639</u>	<u>4,277,130</u>	<u>5,516,263</u>	<u>5,786,173</u>
Total assets	<u>\$ 3,029,987</u>	<u>\$ 2,834,177</u>	<u>\$ 6,398,870</u>	<u>\$ 6,561,720</u>	<u>\$ 9,428,857</u>	<u>\$ 9,395,897</u>
Long-term debt outstanding	\$ 405,864	\$ 524,417	\$ 1,997,537	\$ 2,140,471	\$ 2,403,401	\$ 2,664,888
Other liabilities	<u>296,708</u>	<u>115,198</u>	<u>125,406</u>	<u>213,857</u>	<u>422,114</u>	<u>329,055</u>
Total liabilities	<u>\$ 702,572</u>	<u>\$ 639,615</u>	<u>\$ 2,122,943</u>	<u>\$ 2,354,328</u>	<u>\$ 2,825,515</u>	<u>\$ 2,993,943</u>

Invested in capital						
assets, net of debt	\$ 1,102,266	\$ 1,030,594	\$ 2,103,171	\$ 2,186,676	\$ 3,205,437	\$ 3,217,270
Restricted	339,402	403,513	33,084	65,656	372,486	469,169
Unrestricted	<u>885,747</u>	<u>760,455</u>	<u>2,139,672</u>	<u>1,955,060</u>	<u>3,025,419</u>	<u>2,715,515</u>
Total net position	<u>\$ 2,327,415</u>	<u>\$ 2,194,562</u>	<u>\$ 4,275,927</u>	<u>\$ 4,207,392</u>	<u>\$ 6,603,342</u>	<u>\$ 6,401,954</u>

That reflects an increase of 6.1 percent for governmental activities and a 1.6 percent increase for business-type activities.

The increase in governmental net position is due to a grant received from Pittsylvania County to pay-off a fire truck. The increase in net position of business-type activities is a result of an increase in water and sewer revenue during the year.

Table 2
Changes in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues						
Program revenues:						
Charges for services	\$ 110,035	\$ 106,123	\$ 1,698,931	\$ 1,621,227	\$ 1,808,966	\$ 1,727,350
Grants and contributions	159,748	44,650	241,346	257,000	401,094	301,650
General revenues:						
Property taxes	347,231	293,344	-	-	347,231	293,344
Other taxes	451,313	452,023	-	-	451,313	452,023
Sale of cemetery lots	26,500	20,250	-	-	26,500	20,250
Contributions and donations	-	162,800	-	-	-	162,800
Investment earnings	<u>4,065</u>	<u>4,006</u>	<u>-</u>	<u>1,049</u>	<u>4,065</u>	<u>5,055</u>
Total revenues	<u>1,098,892</u>	<u>1,083,196</u>	<u>1,940,277</u>	<u>1,879,276</u>	<u>3,039,169</u>	<u>2,962,472</u>
Program expenses:						
General government	\$ 170,143	\$ 142,654	\$ -	\$ -	\$ 170,143	\$ 142,654
Judicial administration	281,672	256,174	-	-	281,672	256,174
Public safety	43,958	58,998	-	-	43,958	58,998
Public works	353,074	294,800	-	-	353,074	294,800
Cemetery maintenance	12,595	56,747	-	-	12,595	56,747
Parks, recreation, and cultural	35,737	72,981	-	-	35,737	72,981
Interest on long-term debt	9,372	17,156	-	-	9,372	17,156
Water and sewer	<u>-</u>	<u>-</u>	<u>1,923,843</u>	<u>1,668,743</u>	<u>1,923,843</u>	<u>1,668,743</u>
Total expenses	<u>906,551</u>	<u>899,510</u>	<u>1,923,843</u>	<u>1,668,743</u>	<u>2,830,394</u>	<u>2,568,253</u>
Transfers	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>
Increase in net position	<u>\$ 192,341</u>	<u>\$ 283,686</u>	<u>\$ 16,434</u>	<u>\$ 110,533</u>	<u>\$ 208,775</u>	<u>\$ 394,219</u>

The Town's total revenues increased by 8.1 percent. The total cost of all programs and services increased by 10.2 percent. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the Town's governmental activities increased 1.4 percent, while expenses increased 0.8 percent. The revenue increase is due primarily to the contribution from Pittsylvania County in the current year. Expenses increased due to several repairs made in the current year.

Business-type Activities

Revenues for the Town's business-type activities increased 3.2 percent due to a grant received in the current year for improvements to the dam analysis. Expenses increased 15.3 percent from the prior year due to an increase in repairs and the first full year with wastewater and maintenance agreement with Severn Trent.

THE TOWN'S FUNDS

As the Town completed the year, its governmental funds (as presented in the balance sheet on page 13) reported a fund balance of \$1,240,149, which is 13.6 percent higher than last year. The primary reason for the increase is due a grant received from Pittsylvania County.

General Fund Budgetary Highlights

There were no differences between the original budget and the final budget.

Actual expenses were \$110,381 higher than budgeted amounts, this is due to the pay-off of the fire truck with funds received from Pittsylvania County. Actual revenues were \$214,291 higher than budgeted amounts due to the funds received from Pittsylvania County and an increase in taxes received.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2018, amounts to \$5,516,263 (net of accumulated depreciation). This investment in capital assets includes police and fire equipment, buildings, park facilities, improvements, and water and sewer lines. This amount represents a net decrease (including additions and deductions) of approximately \$302,637, or 11.86 percent, below last year.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Land	\$ 295,910	\$ 295,910	\$ -	\$ -	\$ 295,910	\$ 295,910
Building and Improvements	1,077,100	1,102,351	-	-	1,077,100	1,102,351
Machinery, Equipment, and Vehicles	74,614	110,782	-	-	74,614	110,782
Water/Sewer Lines	<u>-</u>	<u>-</u>	<u>4,068,639</u>	<u>4,277,129</u>	<u>4,068,639</u>	<u>4,277,129</u>
Totals	<u>\$ 1,447,624</u>	<u>\$ 1,509,043</u>	<u>\$ 4,068,639</u>	<u>\$ 4,277,129</u>	<u>\$ 5,516,263</u>	<u>\$ 5,786,172</u>

This year's major additions included:

Bath room at Silas Moore Park, paid for with revenues \$ 8,000

Debt

At year-end, the Town had \$2,249,069 in bonds and notes outstanding compared to \$2,551,706 last year – a decrease of 11.8 percent as shown in the following table.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
General obligation bonds	\$ -	\$ -	\$ 1,922,935	\$ 2,037,928	\$ 1,922,935	\$ 2,037,928
Lease revenue bond	283,601	330,868	-	-	283,601	330,868
Lease purchase	-	-	42,533	52,526	42,533	52,526
Notes payable	<u>-</u>	<u>130,384</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>130,384</u>
Totals	<u>\$ 283,601</u>	<u>\$ 461,252</u>	<u>\$ 1,965,468</u>	<u>\$ 2,090,454</u>	<u>\$ 2,249,069</u>	<u>\$ 2,551,706</u>

The Commonwealth limits the amount of general obligation debt that the Town can issue to 10 percent of the assessed value of all taxable property within the Town's corporate limits.

Other obligations include accrued vacation pay and sick leave. More detailed information about the Town's long-term liabilities is presented in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The rates for real estate and personal property tax, as well as garbage collection fees, will remain unchanged. The fee to purchase a cemetery plot will also endure.

Business type activities (e.g., water/sewer revenue) will also remain unchanged.

All of these factors were considered in preparing the Town's budget for the 2018 fiscal year.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Finance Office at P.O. Box 370, Chatham, Virginia 24531. Phone 434-432-9515.

BASIC FINANCIAL STATEMENTS

TOWN OF CHATHAM, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2018

Exhibit 1

ASSETS	Governmental Activities	Business-type Activities	Total
Cash	\$ 842,763	\$ 1,879,596	\$ 2,722,359
Cash designated for capital improvements	244,107	-	244,107
Receivables (net of allowances for uncollectibles):			
Taxes, including penalties	49,686	-	49,686
Accounts	21,856	252,671	274,527
Prepays	23,669	22,656	46,325
Restricted assets:			
Cash	35,922	-	35,922
Certificate of deposit	193,471	-	193,471
Fixed assets (net of accumulated depreciation)	1,447,624	4,068,639	5,516,263
Bond issuance costs (net of accumulated amortization)	7,603	43,537	51,140
Deferred outflows of resources-pension contributions	15,149	11,120	26,269
Net pension asset	148,137	120,651	268,788
Total assets	<u>\$ 3,029,987</u>	<u>\$ 6,398,870</u>	<u>\$ 9,428,857</u>
LIABILITIES			
Accounts payable	\$ 156,991	\$ 43,960	\$ 200,951
Accrued payroll	14,335	12,199	26,534
Long-term obligations:			
Due within one year	72,430	132,700	205,130
Due beyond one year	333,434	1,864,837	2,198,271
Net group life insurance liability	26,883	25,117	52,000
Net line of duty act liability	41,000	-	41,000
Deferred inflows of resources-VRS	57,499	44,130	101,629
Total liabilities	<u>702,572</u>	<u>2,122,943</u>	<u>2,825,515</u>
NET POSITION			
Invested in capital assets, net of related debt	\$ 1,102,266	\$ 2,103,171	\$ 3,205,437
Restricted for:			
Perpetual care:			
Unexpendable	334,263	-	334,263
Pension and Other Post Employment Benefits	5,139	33,084	38,223
Unrestricted	885,747	2,139,672	3,025,419
Total net position	<u>\$ 2,327,415</u>	<u>\$ 4,275,927</u>	<u>\$ 6,603,342</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHATHAM, VIRGINIA

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
General government	\$ 170,143	\$ 177	\$ -	\$ -	\$ (169,966)	\$ -	\$ (169,966)
Judicial administration	281,672	-	-	-	(281,672)	-	(281,672)
Public safety	43,958	27,385	59,748	100,000	143,175	-	143,175
Public works	353,074	82,473	-	-	(270,601)	-	(270,601)
Cemetery maintenance	12,595	-	-	-	(12,595)	-	(12,595)
Parks, recreation, and cultural	35,737	-	-	-	(35,737)	-	(35,737)
Interest on long-term debt	9,372	-	-	-	(9,372)	-	(9,372)
Total governmental activities	906,551	110,035	59,748	100,000	(636,768)	-	(636,768)
Business-type activities:							
Water and sewer	1,923,843	1,698,931	-	241,346	-	16,434	16,434
Total primary government	\$ 2,830,394	\$ 1,808,966	\$ 59,748	\$ 341,346	\$ (636,768)	\$ 16,434	\$ (620,334)
General Revenues:							
Property taxes					\$ 347,231	\$ -	\$ 347,231
Other taxes and revenues					451,313	-	451,313
Sale of cemetery lots					26,500	-	26,500
Contributions and donations					-	-	-
Unrestricted investment earnings					4,065	-	4,065
Total general revenues					829,109	-	829,109
Transfers					-	-	-
Change in net assets					192,341	16,434	208,775
Net position - beginning, as restated					2,135,074	4,259,493	6,394,567
Net position - ending					\$ 2,327,415	\$ 4,275,927	\$ 6,603,342

The accompanying notes are an integral part of the financial statements.

TOWN OF CHATHAM, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

Exhibit 3

ASSETS	<u>General</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Cash	\$ 842,763	\$ -	\$ 842,763
Cash designated for capital improvements	244,107	-	244,107
Receivables (net of allowances for uncollectibles):			
Taxes, including penalties	49,686	-	49,686
Accounts	21,856	-	21,856
Prepays	23,669		23,669
Due from other funds	-	140,792	140,792
Restricted assets:			
Cash	-	35,923	35,923
Certificate of deposit	-	193,471	193,471
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,182,081</u>	<u>\$ 370,186</u>	<u>\$ 1,552,267</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 156,991	\$ -	\$ 156,991
Accrued payroll	14,335	-	14,335
Due to other funds	140,792	-	140,792
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>312,118</u>	<u>-</u>	<u>312,118</u>
Fund balances:			
Restricted for:			
Perpetual care	-	370,186	370,186
Assigned to:			
Capital improvements	244,107	-	244,107
Unassigned	625,856	-	625,856
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>869,963</u>	<u>370,186</u>	<u>1,240,149</u>
Total liabilities and fund balances	<u>\$ 1,182,081</u>	<u>\$ 370,186</u>	
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			1,455,227
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.			(405,864)
Some assets and liabilities, including net pension assets, net group life insurance and line of duty act liability, are not due and payable in the current period and, therefore, are not reported in the funds.			80,254
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds			(42,351)
Net position of governmental activities			<u>\$ 2,327,415</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHATHAM, VIRGINIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

Exhibit 4

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
General property taxes	\$ 347,231	\$ -	\$ 347,231
Other local taxes	192,552	-	192,552
Consumer utility tax	114,385	-	114,385
Permits, privilege fees, and regulatory licenses	96,363	-	96,363
Fines and forfeitures	27,385	-	27,385
Interest and investment revenue	3,264	802	4,066
Charges for service	82,650	-	82,650
Recovered costs	114,706	-	114,706
Sale of cemetery lots	-	26,501	26,501
Intergovernmental	59,748	-	59,748
Miscellaneous	33,307	-	33,307
Total revenues	<u>1,071,591</u>	<u>27,303</u>	<u>1,098,894</u>
Expenditures:			
Current:			
General government administration	149,003	-	149,003
Judicial administration	262,086	-	262,086
Public safety	25,928	-	25,928
Public works	349,353	-	349,353
Cemetery maintenance	9,923	-	9,923
Parks, recreation, and cultural	36,411	-	36,411
Debt service:			
Principal and interest retirement	192,522	-	192,522
Total expenditures	<u>1,025,226</u>	<u>-</u>	<u>1,025,226</u>
Excess of revenues over expenditures	<u>46,365</u>	<u>27,303</u>	<u>73,668</u>
Other financing sources (uses):			
Proceeds from note issued	48,684	-	48,684
Operating transfers in	10,600	-	10,600
Operating transfers out	-	(10,600)	(10,600)
Total other financing sources (uses)	<u>59,284</u>	<u>(10,600)</u>	<u>48,684</u>
Net change in fund balances	105,649	16,703	122,352
Fund balance at beginning of year	<u>764,314</u>	<u>353,483</u>	<u>1,117,797</u>
Fund balance at end of year	<u>\$ 869,963</u>	<u>\$ 370,186</u>	<u>\$ 1,240,149</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHATHAM, VIRGINIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Exhibit 5

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 14)	\$ 122,352
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(61,418)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds.	134,465
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	238
Governmental funds report Virginia Retirement System contributions as expenditures. However in the statement of activities, the cost of benefits earned net of employee contributions is reported as expense.	<u>(3,296)</u>
Change in net position before prior period adjustment of governmental activities	<u><u>\$ 192,341</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHATHAM, VIRGINIA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2018

Exhibit 6

Business-type
Activities

Water and
Sewer Fund

ASSETS	
Current assets:	
Cash	\$ 1,879,596
Accounts receivables (net of allowances for uncollectibles)	252,671
Prepaid expenses	22,656
Total current assets	<u>2,154,923</u>
Noncurrent assets:	
Fixed assets (net of accumulated depreciation)	4,068,639
Bond issuance costs (net of accumulated amortization)	43,537
Deferred outflows of resources-pension contributions	11,120
Net pension asset	120,651
Total noncurrent assets	<u>4,243,947</u>
Total assets	<u><u>\$ 6,398,870</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 43,960
Accrued payroll	12,199
Compensated absences	6,414
Long-term debt	126,286
Total current liabilities	<u>188,859</u>
Noncurrent liabilities:	
Compensated absences	25,655
Long-term debt	1,839,182
Due to other funds	-
Net group life insurance liability	25,117
Deferred inflows of resources - VRS	44,130
Total noncurrent liabilities	<u>1,934,084</u>
Total liabilities	<u>2,122,943</u>
NET POSITION	
Invested in capital assets, net of related debt	2,103,171
Restricted	33,084
Unrestricted	2,139,672
Total net position	<u><u>\$ 4,275,927</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHATHAM, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION

PROPRIETARY FUNDS

For the Year Ended June 30, 2018

Exhibit 7

	Business-type <u>Activities</u> Water and <u>Sewer Fund</u>
Operating revenues:	
Charges for services	\$ 1,674,585
Tap fees	8,075
Grant income	241,346
Miscellaneous	16,271
Total operating revenues	<u>1,940,277</u>
Operating expenses:	
Personal services	317,117
Fringe benefits	80,952
Contractual services	834,408
Waste water and water use fee	36,624
Analysis fees	4,493
Repairs and maintenance	30,182
Vehicle expenses	184,964
Materials and supplies	9,538
Chemicals	66,365
Depreciation	208,491
Utilities	55,862
Telephone	5,051
Insurance	15,151
Data processing	1,740
Other expenses	8,297
Total operating expenses	<u>1,859,235</u>
Operating income	<u>81,042</u>
Nonoperating income (expense):	
Interest expense	<u>(64,608)</u>
Total nonoperating (expense)	<u>(64,608)</u>
Transfers out	<u>-</u>
Net income	16,434
Total net position-beginning, as restated	<u>4,259,493</u>
Total net position-ending	<u><u>\$ 4,275,927</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHATHAM, VIRGINIA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2018

Exhibit 8

Business-type Activities

Water and
 Sewer Fund

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 1,780,800
Receipts from grants	241,346
Payments to suppliers	(1,243,376)
Payments to employees	<u>(412,814)</u>
Net cash provided by operating activities	<u>365,956</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Transfer to other funds	(141,529)
Principal paid on capital debt	(124,986)
Interest paid on capital debt	<u>(61,263)</u>
Net cash (used in) capital and related financing activities	<u>(327,778)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	-
Net increase in cash	38,178
Cash and cash equivalents	
Beginning	<u>1,841,418</u>
Ending	<u>\$ 1,879,596</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH
 PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 81,042
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	208,491
Change in operating assets and liabilities:	
Decrease in accounts receivable	81,869
(Increase) in prepaid expenses	(10,850)
Increase in accounts payable	20,149
(Decrease) in accrued payroll	(3,719)
Increase in deferred inflows/outflows	6,922
(Decrease) in compensated absences	<u>(17,948)</u>
Net cash provided by operating activities	<u>\$ 365,956</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Town of Chatham, Virginia (the primary government) is a municipal corporation governed by a seven-member council. The Town's major operations include police and fire protection, parks and recreation, public works, and general administrative services. In addition, the Town owns and operates a water and sewer system.

The Town's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Town has chosen not to do so. The more significant accounting policies established in GAAP and used by the Town are discussed below.

B. Financial Statement Presentation

Government-Wide and Fund Financial Statements

Government-Wide Statements

The Town's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the Town accompanied by a total column. Fiduciary activities of the Town are not included in these statements.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the Town are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

The Town does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net position resulting from the current year's activities.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the Government-Wide financial statements. The Town has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. (The Town’s deferred outflows of resources and deferred inflows of resources are noncurrent.) The Statement of Revenues, Expenditures, and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Town, are property tax, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenditures, and Changes in Net Position, and a Statement of Cash Flows for the proprietary fund.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenditures, and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Cash Equivalents

The Town has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agents. Additionally, each fund's equity in the Town's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

D. Allowances for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowances amounted to \$2,500 in the Governmental Activities at June 30, 2018.

E. Capital Assets

Capital assets purchased or acquired with an original cost of \$2,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-50 years
Water and sewer system	30-50 years
Machinery and equipment	5-10 years
Improvements	10-20 years
Other infrastructure	10-50 years

GASB No. 34 requires the Town to report and depreciate new infrastructure assets effective with the beginning of the current year. No new infrastructure assets were constructed or purchased for the year. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the Town. Neither their historical cost nor related depreciation has historically been reported in the financial statements.

F. Revenues

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB No. 33. In applying GASB No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

G. Expenditures

Expenditures are recognized when the related fund liability is incurred.

H. Compensated Absences

The Town accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The non-current portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Long-term Obligations

In the government-wide financial statements, other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

K. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Political Subdivision's Retirement Plan and the additions to/deductions from the Political Subdivision's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

L. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has one item that qualifies for reporting in this category. It is comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. For more detailed information on these items, reference the pension note.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, the net difference between projected and actual earnings on pension plan investments and changes in proportion and differences between employer contributions and proportionate share of contributions. For more detailed information on these items, reference the pension note.

N. New Accounting Pronouncements

In fiscal year 2018, management adopted the provisions of the Governmental Accounting Standards Board Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans and Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The statements replace the requirements of GASB statements No. 43 and No. 45 on accounting and financial reporting by employers for postemployment benefits other than pensions. See Note 8 for the restatement of beginning net position.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

O. Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. Line of duty act program

The Virginia Retirement System (VRS) Line of Duty Act Program (LODA) is a multiple-employer, cost-sharing plan. The Line of Duty Act Program was established pursuant to §9.1-400 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Line of Duty Act Program provides death and health insurance benefits to eligible state employees and local government employees, including volunteers, who die or become disabled as a result of the performance of their duties as a public safety officer. In addition, health insurance benefits are provided to eligible survivors and family members. For purposes of measuring the net Line of Duty Act Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Line of Duty Act Program OPEB, and Line of Duty Act Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Line of Duty Act Program OPEB Plan and the additions to/deductions from the VRS Line of Duty Act Program OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2. Cash

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 2. Cash (Continued)

At year-end, the carrying value of the Town's deposits with banks and savings institutions was \$2,827,039, and the bank balance was \$2,828,806.

Note 3. Property Taxes Receivable

Property tax is levied on or about October 15th annually on the assessed (appraised) value listed as of the prior January 1st for all real and personal property located in the Town. Taxable assessed value represents the appraisal value less applicable exemptions authorized by the Town Council. Appraised values are established by the Pittsylvania County Tax Assessor at 100% of estimated fair market value.

Taxes are due on December 5th immediately following the levy date and are delinquent on December 6th. Current tax collections for the year ended June 30, 2018 were 95.5% of the tax levy.

Property taxes are recorded as receivables and deferred revenues at the time the tax levy is billed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the year, and therefore susceptible to accrual in accordance with generally accepted accounting principles, have been recognized as revenue.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance <u>7/1/17</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/18</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 295,910	\$ -	\$ -	\$ 295,910
Capital assets, being depreciated:				
Buildings and improvements	2,108,448	25,504	-	2,133,952
Equipment	<u>1,232,710</u>	<u>7,476</u>	<u>(11,004)</u>	<u>1,229,182</u>
Total capital assets being depreciated	<u>3,341,158</u>	<u>32,980</u>	<u>(11,004)</u>	<u>3,363,134</u>
Less accumulated depreciation for:				
Buildings and improvements	1,006,097	50,755	-	1,056,852
Equipment	<u>1,121,928</u>	<u>32,640</u>	<u>-</u>	<u>1,154,568</u>
Total accumulated depreciation	<u>2,128,025</u>	<u>83,395</u>	<u>-</u>	<u>2,211,420</u>
Governmental activities capital assets, net	<u>\$ 1,509,043</u>	<u>\$ (50,415)</u>	<u>\$ (11,004)</u>	<u>\$ 1,447,624</u>
Business-type activities:				
Capital assets, being depreciated:				
Water plant	\$ 2,468,220	\$ -	\$ -	\$ 2,468,220
Sewer plant	2,569,323	-	-	2,569,323
Lines, tank, etc.	3,020,869	-	-	3,020,869
Machinery and equipment	<u>247,219</u>	<u>-</u>	<u>-</u>	<u>247,219</u>
Total capital assets being depreciated	<u>8,305,631</u>	<u>-</u>	<u>-</u>	<u>8,305,631</u>
Less accumulated depreciation for:				
Water plant	461,459	79,065	-	540,524
Sewer plant	1,621,033	59,043	-	1,680,076
Lines, tank, etc.	1,698,790	70,383	-	1,769,173
Machinery and equipment	<u>247,219</u>	<u>-</u>	<u>-</u>	<u>247,219</u>
Total accumulated depreciation	<u>4,028,501</u>	<u>208,491</u>	<u>-</u>	<u>4,236,992</u>
Business-type activities capital assets, net	<u>\$ 4,277,130</u>	<u>\$ (208,491)</u>	<u>\$ -</u>	<u>\$ 4,068,639</u>

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

Governmental activities:

General government	\$ 24,139
Public safety	37,539
Public works	13,423
Cemetery maintenance	1,465
Parks, recreation, and cultural	<u>6,829</u>

Total depreciation expense-governmental activities	<u>\$ 83,395</u>
--	------------------

Business-type activities:

Water and sewer	<u>\$ 208,491</u>
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Note 5. Long-Term Debt

Governmental activities:

On June 24, 2014, the Industrial Development Authority of Pittsylvania County issued a \$472,669 lease revenue refunding bond for the purpose of payment, refinancing and refunding of the Industrial Development Authority's \$726,000 lease revenue bond which was used to construct a new fire station for the Chatham Volunteer Fire Department. The bond was issued pursuant to a lease agreement dated June 1, 2014 between the Industrial Development Authority of Pittsylvania County and the Town Council of the Town of Chatham. The Town is not empowered to make any binding commitment beyond the current fiscal year of the Town although the current intention of the Town Council is to make sufficient annual appropriation during the lease term to pay all rental payments and other amounts required to be paid by the Town under the lease. Interest is payable at 2.50%. Installments of principal are due annually on June 1, through June 1, 2024. Installments of interest are due on each December 1 and June 1, through June 1, 2024.

Annual requirements are summarized as follows:

Year Ending June 30:	Principal	Interest
2019	\$ 47,266	\$ 7,090
2020	47,266	5,908
2021	47,266	4,727
2022	47,266	3,544
2023	47,266	2,363
Thereafter	<u>47,271</u>	<u>1,182</u>
	<u>\$ 283,601</u>	<u>\$ 24,814</u>

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

On July 1, 2016, Town Council entered into a \$21,200 loan with the United States Department of Agriculture, for the purpose of purchasing a new police car. Interest is payable at 2.875%. Installments of principal and interest are due annually on June 8, through June 8, 2021.

Annual requirements are summarized as follows:

Year Ending June 30:	Principal	Interest
2019	\$ 4,237	\$ 376
2020	4,359	254
2021	<u>4,477</u>	<u>129</u>
Total	<u>\$ 13,073</u>	<u>\$ 759</u>

On June 27, 2018, Town Council entered into a \$48,684 loan with First Citizen's Bank, for the purpose of purchasing a new truck for the streets department. Interest is payable at 4.91%. Installments of principal and interest are due annually on June 27, through June 27, 2023.

Annual requirements are summarized as follows:

Year Ending June 30:	Principal	Interest
2019	\$ 8,826	\$ 2,390
2020	9,260	1,957
2021	9,714	1,502
2022	10,191	1,025
2023	<u>10,693</u>	<u>525</u>
Total	<u>\$ 48,684</u>	<u>\$ 7,399</u>

Business-type activities:

On March 29, 2012, the Town Council entered into a refunding bond issue of \$1,640,552, for the purpose of refunding the Town's General Obligation Water and Sewer Refunding Bond, Series 2008 and to pay the redemption price and issuance costs related thereto. Interest is payable at 3.10%. Installments of principal are due annually on June 15, through June 15, 2033. Installments of interest are due on each June 15 and December 15, through June 15, 2033.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

Future maturities for bonds payable are as follows:

Year Ending June 30:	Principal	Interest
2019	\$ 67,420	\$ 37,556
2020	69,510	35,466
2021	71,665	33,311
2022	73,887	31,090
2023	76,177	28,799
Thereafter	<u>852,826</u>	<u>144,447</u>
Total	<u>\$ 1,211,485</u>	<u>\$ 310,669</u>

Town Council entered into a lease purchase agreement during the 2013 fiscal year in the amount of \$98,950, for the purpose of relocating a booster station to increase water pressure to the Olde Dominion Agricultural Center and the northern area of Town. Interest is payable at 2.50%. Installments of principal and interest are due annually on August 1, through August 1, 2021.

Future maturities for bonds payable are as follows:

Year Ending June 30:	Principal	Interest
2019	\$ 10,243	\$ 1,063
2020	10,499	807
2021	10,761	545
2022	<u>11,030</u>	<u>276</u>
Total	<u>\$ 42,533</u>	<u>\$ 2,691</u>

On September 22, 2015, the Town Council entered into a utility revenue bond issue of \$821,000, for the purpose of renovating the water treatment plant and to pay the issuance costs related thereto. Interest is payable at 2.50%. Installments of principal and interest are due on each August 1 and February 1, through August 1, 2030.

Future maturities for bonds payable are as follows:

Year Ending June 30:	Principal	Interest
2019	\$ 50,900	\$ 19,007
2020	52,300	17,613
2021	53,800	16,181
2022	55,200	14,708
2023	56,800	13,196
Thereafter	<u>442,450</u>	<u>46,392</u>
Total	<u>\$ 711,450</u>	<u>\$ 127,097</u>

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

Changes in Long-Term Debt:

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2018:

	Payable at <u>7/1/17</u>	Plus <u>Additions</u>	Less <u>Retirements</u>	Payable at <u>6/30/18</u>	Due within <u>One year</u>
Governmental activities:					
Bonds and notes payable:					
Lease revenue bond:					
06/24/14 Issue	\$ 330,868	\$ -	\$ 47,267	\$ 283,601	\$ 47,266
Note payable - 07/01/16	17,197	-	4,124	13,073	4,237
Note payable - 09/05/07	130,384	-	130,384	-	-
Note payable - 06/27/18	<u>-</u>	<u>48,684</u>	<u>-</u>	<u>48,684</u>	<u>8,826</u>
Total bonds and notes payable	<u>478,449</u>	<u>48,684</u>	<u>181,775</u>	<u>345,358</u>	<u>60,329</u>
Other liabilities:					
Compensated absences	<u>45,968</u>	<u>29,687</u>	<u>15,149</u>	<u>60,506</u>	<u>12,101</u>
Governmental activities long-term liabilities	<u>\$ 524,417</u>	<u>\$ 78,371</u>	<u>\$ 196,924</u>	<u>\$ 405,864</u>	<u>\$ 72,430</u>
Business-type activities:					
Bonds:					
General obligation bonds:					
03/29/12 Issue	\$ 1,276,878	\$ -	\$ 65,393	\$ 1,211,485	\$ 65,393
Utility Revenue bonds:					
09/22/15 Issue	<u>761,050</u>	<u>-</u>	<u>49,600</u>	<u>711,450</u>	<u>50,900</u>
Total bonds payable	<u>2,037,928</u>	<u>-</u>	<u>114,993</u>	<u>1,922,935</u>	<u>116,293</u>
Lease purchase agreement	<u>52,526</u>	<u>-</u>	<u>9,993</u>	<u>42,533</u>	<u>9,993</u>
Other liabilities:					
Compensated absences	<u>50,017</u>	<u>7,851</u>	<u>25,799</u>	<u>32,069</u>	<u>6,414</u>
Business-type activities long-term liabilities	<u>\$ 2,140,471</u>	<u>\$ 7,851</u>	<u>\$ 150,785</u>	<u>\$ 1,997,537</u>	<u>\$ 132,700</u>

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

Details of Long-Term Indebtedness

Governmental Activities:	<u>Amount Outstanding</u>
\$472,669 authorized and issued - Lease Revenue Bond issued June 24, 2014, maturing annually with interest payable annually. Bonds bearing interest at 2.50% maturing on June 1, 2024	\$ 283,601
\$21,200 note with United States Department of Agriculture to finance a police car, payable in five annual installments of \$4,613 bearing interest at 2.875%	13,073
\$48,684 note with First Citizen's Bank to finance a truck, payable in five annual installments of \$11,217 bearing interest at 4.91%	48,684
Compensated absences:	
Vacation and sick leave	<u>60,506</u>
	<u>\$ 405,864</u>
 Business-type activities:	 <u>Amount Outstanding</u>
\$1,640,552 authorized and issued Water and Sewer Fund General Obligation Refunding Bond issued March 29, 2012, maturing annually with interest payable semi-annually. Bonds bearing interest at 3.10% maturing on June 15, 2033	\$1,211,485
\$821,000 authorized and issued Water and Sewer Utility Revenue Bond, Series 2015 issued September 22, 2015. The revenue bond is due in varying annual installments through August 2030 with interest payable semi-annually at a rate of 2.50%	711,450
\$98,950 lease purchase agreement with Pittsylvania County, payable in ten installments of \$11,306 bearing interest at 2.50%	42,533
Compensated absences:	
Vacation and sick leave	<u>32,069</u>
	<u>\$1,997,537</u>

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 6. Fund Balance Disclosure

The Town of Chatham, Virginia implemented GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2012. The purpose of GASB No. 54 is to improve the consistency and usefulness of the fund balance information to the financial user. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the organization is bound to honor constraints on the specific purpose for which amounts in the funds can be spent.

Governmental Fund Financial Statements. In accordance with GASB No. 54, the Town classifies fund balances in the government funds as follows:

- Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The Town has not reported any amounts that are not spendable in form or legally or contractually required to be maintained intact.
- Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to ordinances passed by the Town Council, the Town's highest level of decision making authority. Commitments may be modified or rescinded only through ordinances approved by the Town's Council. The Town has not reported any amounts that are committed in the current year.
- Assigned – includes amounts that the Town intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance.
- Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned, and unassigned) as they are needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in the General Fund, it is the Town's policy to use unassigned resources first, then assigned, and then committed as needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in any other governmental fund, it is the Town's policy to use committed resources first, then assigned, and then unassigned as needed.

The Town does not have a formal minimum fund balance requirement. However, the Town has adopted a Reserve Policy, which addresses various targeted reserve amounts in the General Fund and the action that will be taken if the reserves fall below the targeted amount.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 6. Fund Balance Disclosure (Continued)

Government-wide and Proprietary Fund Financial Statements. The Town classifies net position in the government-wide and proprietary fund financial statements as follows:

- Net Investment in Capital Assets - includes the Town's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted Net Position - includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The Town typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.
- Unrestricted Net Position - typically includes unrestricted liquid assets. The Town Council has the authority to revisit or alter this designation.

Note 7. Defined Benefit Pension Plan

A. Plan Description

All full-time, salaried permanent employees of the Town of Chatham, Virginia are automatically covered by VRS upon employment. The plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer are paying contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>About VRS Plan 1 VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About VRS Plan 2 VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members")</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Eligible Members Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.</p>	<p>Eligible Members Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt in Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1, through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 2, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This include:</p> <ul style="list-style-type: none"> • Political subdivision employees* • Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1- April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.</p>

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Retirement Contributions Employees contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p> <p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p> <p>Creditable Service Same as VRS Plan 1.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p> <p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as VRS Plan 1.</p>	<p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p> <p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p>

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p> <p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Calculating the Benefit See definition under VRS Plan 1.</p> <p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70 1/2.</p> <p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under VRS Plan 1</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p> <p>Average Final Compensation Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p>	<p>Service Retirement Multiplier VRS: Same as Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p>Service Retirement Multiplier Defined Benefit Component: VRS: The retirement multiplier for the de-fined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p>
<p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p>	<p>Sheriffs and regional jail superintendents: Same as Plan 1.</p>	<p>Sheriffs and regional jail superintendents: Not applicable.</p>
<p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p>Political subdivision hazardous duty employees: Same as VRS Plan 1.</p>	<p>Political subdivision hazardous duty employees: Not applicable.</p>
<p>Normal Retirement Age VRS: Age 65.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p>	<p>Normal Retirement Age Defined Benefit Component: VRS: Same as VRS Plan 2.</p>
<p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Political subdivisions hazardous duty employees: Same as VRS Plan 1.</p>	<p>Political subdivisions hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p> <p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p> <p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p> <p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p> <p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> <p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> <p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as VRS Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for uses other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p><u>Eligibility:</u> Same as VRS Plan 1.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as VRS Plan 1.</p>	<p><u>Eligibility:</u> Same as VRS Plan 1 and VRS Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as VRS Plan 1 and VRS Plan 2.</p>

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> <p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> <p>Purchase of Prior Service Same as VRS Plan 1.</p>	<p>Disability Coverage Employees of political subdivisions (including VRS Plan 1 and VRS Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> <p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as VRS Plan 1 with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost./ After that one year period, the rate for most categories of service will change to actuarial cost. <p>Defined Contribution Component: Not Applicable.</p>

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	<u>11</u>
Inactive members:	
Vested inactive members	1
Non-vested inactive members	3
Inactive members active elsewhere in VRS	<u>2</u>
Total inactive members	<u>6</u>
Active members	<u>21</u>
Total covered employees	<u><u>38</u></u>

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The political subdivision's contractually required contribution rate for the year ended June 30, 2017 was 3.93% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$20,040 and \$24,539 for the years ended June 30, 2018 and June 30, 2017, respectively.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

Net Pension Liability

The political subdivisions net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related.

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS

Update mortality table

Decrease in rates of service retirement

Decrease in rates of disability retirement

Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:

Update mortality table

Decrease in rates of service retirement

Decrease in rates of disability retirement

Reduce rates of salary increase by 0.25% per year

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return (Continued)

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
	Inflation		<u>2.50%</u>
*Expected arithmetic nominal return			<u>7.30%</u>

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the BRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return (Continued)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	\$ 1,709,754	\$ 1,832,401	\$ (122,647)
Changes for the year:			
Service costs	76,367	-	76,367
Interest	116,384	-	116,384
Changes of assumptions	(41,598)	-	(41,598)
Difference between expected and actual experience	(20,449)	-	(20,449)
Contributions - employer	-	24,539	(24,539)
Contributions - employee	-	31,395	(31,395)
Net investment income	-	222,405	(222,405)
Benefit payments, including refunds of employee contributions	(94,262)	(94,262)	-
Administrative expense	-	(1,297)	1,297
Other changes	-	(197)	197
Net changes	36,442	182,583	(146,141)
Balances at June 30, 2017	\$ 1,746,196	\$ 2,014,984	\$ (268,788)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the political subdivision using the discount rate of 7.00%, as well as what the political subdivision's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	(6.00%)	Rate (7.00%)	(8.00%)
Political subdivision's Net Pension Liability	\$ (38,274)	\$ (268,788)	\$ (459,169)

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the political subdivision recognized pension expense of \$1,294. At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 25,780
Change in assumptions	-	32,822
Net difference between projected and actual earnings on pension plan investments	-	30,027
Employer contributions subsequent to the measurement date	12,859	-
Total	<u>\$ 12,859</u>	<u>\$ 88,629</u>

\$12,859 reported as deferred outflows of resources related to pensions resulting from the political division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30

2019	\$ (34,681)
2020	(9,125)
2021	(16,029)
2022	(28,794)
Thereafter	<u>-</u>
	<u>\$ (88,629)</u>

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS Comprehensive Annual Financials Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Note 8. Group Life Insurance

General information about the group life insurance program

Plan description

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

Eligible Employees

The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:

- City of Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City Schools Board

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Group Life Insurance (Continued)

Basic group life insurance coverage is automatic upon employment. Coverage end for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

Benefit amounts

The benefits payable under the Group Life Insurance Program have several components.

- Natural death benefit – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- Accidental death benefit – The accidental death benefit is double the natural death benefit.
- Other benefit provisions – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
 - Accidental dismemberment benefit
 - Safety belt benefit
 - Repatriation benefit
 - Felonious assault benefit
 - Accelerated death benefit option

Reduction in benefits amounts

The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

Minimum benefit amount and cost-of-living adjustment (COLA)

For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the Group Life Insurance Program from the entity were \$2,708 and \$3,297 for the years ended June 30, 2018 and June 30, 2017, respectively.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Group Life Insurance (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2018, the entities reported a liability of \$52,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was .00344% as compared to .00366% at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of \$0. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>Resources</u>	<u>Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	2,000
Change in assumptions	-	3,000
Changes in proportion	-	3,000
Employer contributions subsequent to the measurement date	<u>2,708</u>	<u>-</u>
Total	<u>\$ 2,708</u>	<u>\$ 9,000</u>

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Group Life Insurance (Continued)

\$2,708 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year ended June 30

2019	\$3,000
2020	3,000
2021	1,000
2022	1,000
2023	<u>1,000</u>
	<u>\$9,000</u>

Actuarial assumptions:

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation 2.5 percent

Salary increases, including inflation –

General state employees	3.50 percent – 5.35 percent
Teachers	3.50 percent – 5.95 percent
SPORS employees	3.50 percent – 4.75 percent
VaLORS employees	3.50 percent – 4.75 percent
JRS employees	4.50 percent
Locality – General employees	3.50 percent – 5.35 percent
Locality – Hazardous Duty employees	3.50 percent – 4.75 percent

Investment rate of return	7.00 percent, net of investment expenses, Including inflation*
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* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of the OPEB liabilities.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Group Life Insurance (Continued)

Mortality rates – largest ten locality employers – general employees

Pre-retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal rates	Adjusted termination rates to better fit experience at each age and service year
Disability rates	Lowered disability rates
Salary scale	No change
Line of duty disability	Increased rate from 14% to 20%

Mortality rates – non-largest ten locality employers – general employees

Pre-retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Group Life Insurance (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal rates	Adjusted termination rates to better fit experience at each age and service year
Disability rates	Lowered disability rates
Salary scale	No change
Line of duty disability	Increased rate from 14% to 15%

Mortality rates – largest ten locality employers – hazardous duty employees

Pre-retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Lowered retirement rates at older ages
Withdrawal rates	Adjusted termination rates to better fit experience at each age and service year
Disability rates	Increased disability rates
Salary scale	No change
Line of duty disability	Increased rate from 60% to 70%

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Group Life Insurance (Continued)

Mortality rates – non-largest ten locality employers – hazardous duty employees

Pre-retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Increased age 50 rates and lowered rates at older ages
Withdrawal rates	Adjusted termination rates to better fit experience at each age and service year
Disability rates	Adjusted rates to better match experience
Salary scale	No change
Line of duty disability	Decreased rate from 60% to 45%

Net GLI OPEB liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB liability	\$ 2,942,426
Plan fiduciary net position	1,437,586
Employers' net GLI OPEB liability (asset)	<u>\$ 1,504,840</u>

Plan fiduciary net position as a percentage
of the total GLI OPEB liability

48.86%

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Group Life Insurance (Continued)

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-term expected rate of return

The long-term expected rate of return on the System's investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public equity	40.00%	4.54%	1.82%
Fixed income	15.00%	0.69%	0.10%
Credit strategies	15.00%	3.96%	0.59%
Real assets	15.00%	5.76%	0.86%
Private equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
	*Expected arithmetic nominal return		7.30%

Discount rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Sensitivity of the employer's proportionate share of the net GLI OPEB liability to changes in the discount rate.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Group Life Insurance (Continued)

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Employer's proportionate share of the Group Life Insurance Program			
Net OPEB Liability	\$ 67,000	\$ 52,000	\$ 40,000

Group life insurance program fiduciary net position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 9. Postemployment Benefits Other Than Pension Benefits-Line of Duty Act

Line of duty act program

The Virginia Retirement System (VRS) Line of Duty Act Program (LODA) is a multiple-employer, cost-sharing plan. The Line of Duty Act Program was established pursuant to §9.1-400 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Line of Duty Act Program provides death and health insurance benefits to eligible state employees and local government employees, including volunteers, who die or become disabled as a result of the performance of their duties as a public safety officer. In addition, health insurance benefits are provided to eligible survivors and family members. For purposes of measuring the net Line of Duty Act Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Line of Duty Act Program OPEB, and Line of Duty Act Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Line of Duty Act Program OPEB Plan and the additions to/deductions from the VRS Line of Duty Act Program OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 9. Postemployment Benefits Other Than Pension Benefits-Line of Duty Act (Continued)

General information about the line of duty act program

Plan description

All paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS) are automatically covered by the Line of Duty Act Program (LODA). As required by statute, the Virginia Retirement System (the System) is responsible for managing the assets of the program. Participating employers made contributions to the program beginning in FY 2012. The employer contributions are determined by the System's actuary using anticipated program costs and the number of covered individuals associated with all participating employers.

Line of Duty Act Program (LODA) Plan Provisions

Eligible employees

The eligible employees of the Line of Duty Act Program (LODA) are paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS).

Benefit amounts

The Line of Duty Act Program (LODA) provides death and health insurance benefits for eligible individuals:

- Death - The Line of Duty Act Program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows:
 - \$100,000 when a death occurs as a direct or proximate result of performing duty as of January 1, 2006, or after.
 - \$25,000 when the cause of death is attributed to one of the applicable presumptions and occurred earlier than five years after the retirement date.
 - An additional \$20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001.
- Health insurance - The Line of Duty Act Program provides health insurance benefits.
 - Prior to July 1, 2017, these benefits were managed through the various employer plans and maintained the benefits that existed prior to the employee's death or disability. These premiums were reimbursed to the employer by the LODA program.
 - Beginning July 1, 2017, the health insurance benefits are managed through the Virginia Department of Human Resource Management (DHRM). The health benefits are modeled after the State Employee Health benefits Program plans and provide consistent, premium-free continued health plan coverage for LODA-eligible disabled individuals, survivors and family members. Individuals receiving the health insurance benefits must continue to meet eligibility requirements as defined by the Line of Duty Act.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 9. Postemployment Benefits Other Than Pension Benefits-Line of Duty Act (Continued)

Contributions

The contribution requirements for the Line of Duty Act Program (LODA) are governed by §9.1-400.1 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Line of Duty Act Program (LODA) for the year ended June 30, 2018 was \$567.37 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and represents the pay as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the Line of Duty Act Program (LODA) from the entity were \$1,702 and \$1,557 for the years ended June 30, 2018 and June 30, 2017, respectively.

Line of Duty Act Program (LODA) OPEB Liabilities, LODA OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the LODA OPEB

At June 30, 2018, the entity reported a liability of \$41,000 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2017 and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation as of that date. The entity's proportion of the Net LODA OPEB Liability was based on the entity's actuarially determined pay-as-you-go employer contributions to the LODA OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2017, the entity's proportion was .01578% as compared to .01595% at June 30, 2016.

For the year ended June 30, 2018, the entity recognized LODA OPEB expense of \$4,000. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the agency reported deferred outflows of resources and deferred inflows of resources related to the LODA OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on LODA OPEB program investments		
Change in assumptions	-	4,000
Changes in proportion	-	-
Employer contributions subsequent to the measurement date	1,702	-
	<u>1,702</u>	<u>-</u>
Total	<u>\$ 1,702</u>	<u>\$ 4,000</u>

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 9. Postemployment Benefits Other Than Pension Benefits-Line of Duty Act (Continued)

\$1,702 reported as deferred outflows of resources related to the LODA OPEB resulting from the entity's contributions subsequent to the measurement date will be recognized as a reduction of the Net LODA OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the LODA OPEB will be recognized in LODA OPEB expense in future reporting periods as follows:

Year ended June 30	
2019	\$1,000
2020	1,000
2021	1,000
2022	1,000
2023	-
Thereafter	-
	<u>\$4,000</u>

Actuarial assumptions:

The total LODA OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation –	
General state employees	3.50 percent – 5.35 percent
SPORS employees	3.50 percent – 4.75 percent
VaLORS employees	3.50 percent – 4.75 percent
Locality employees	3.50 percent – 4.75 percent
Medical cost trend rates assumption –	
Under age 65	7.75 percent – 5.00 percent
Ages 65 and older	5.75 percent – 5.00 percent
Investment rate of return	3.56 percent, net of OPEB plan Investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 3.56%. However, since the difference was minimal, a more conservative 3.56% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 9. Postemployment Benefits Other Than Pension Benefits-Line of Duty Act (Continued)

Mortality rates – largest ten locality employers with public safety employees

Pre-retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Lowered retirement rates at older ages
Withdrawal rates	Adjusted termination rates to better fit experience at each age and service year
Disability rates	Increased disability rates
Salary scale	No change
Line of duty disability	Increased rate from 60% to 70%

Mortality rates – non-largest ten locality employers with public safety employees

Pre-retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 9. Postemployment Benefits Other Than Pension Benefits-Line of Duty Act (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Increased age 50 rates and lowered rates at older ages
Withdrawal rates	Adjusted rates to better fit experience at each age and service year
Disability rates	Adjusted rates to better match experience
Salary scale	No change
Line of duty disability	Decreased rate from 60% to 45%

Changes to the LODA Program Associated with HB 1345 (2016) and HB 2243 (2017)

The following changes were made to the LODA Program as a result of legislation in 2016 and 2017, but were specifically not considered in the June 30, 2016 actuarial valuation results which were rolled forward to the measurement date of June 30, 2017. There was no current actuarial experience on which to base the adjustments and the combined impact of the changes was not considered to be material to the final results. These changes will be factored into future actuarial valuations for the LODA Program.

- The discontinuance of spouse health care coverage, if a covered spouse divorces a disabled employee or a covered surviving spouse remarries.
- The potential for VRS's periodic review of the disability status of a disabled employee.
- For those beneficiaries who become eligible for health care benefits as the result of a disability occurring after June 30, 2017, the suspension of health care benefits in years when VRS certifies current income exceeds salary at the time of the disability, indexed for inflation.
- The extension of health care benefits for dependent children to age 26.
- The expansion of the definition of presumption of death or disability to include infectious diseases.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 9. Postemployment Benefits Other Than Pension Benefits-Line of Duty Act (Continued)

Net LODA OPEB Liability

The net OPEB liability (NOL) for the Line of Duty Act Program (LODA) represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Line of Duty Act Program (LODA) is as follows (amounts expressed in thousands):

	Line of Duty Act Program
Total LODA OPEB liability	\$ 266,252
Plan fiduciary net position	3,461
Employers' net OPEB liability (asset)	<u>\$ 262,791</u>

Plan fiduciary net position as a percentage of the total LODA OPEB liability	1.30%
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The total LODA OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-term expected rate of return

The long-term expected rate of return on LODA OPEB Program's investments was set at 3.56% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 7.00% assumption. Instead, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return. This Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System as of the measurement date of June 30, 2017.

Discount rate

The discount rate used to measure the total LODA OPEB liability was 3.56%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by participating employers to the LODA OPEB Program will be subject to the portion of the VRS Board certified rates that are funded by the Virginia General Assembly.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 9. Postemployment Benefits Other Than Pension Benefits-Line of Duty Act (Continued)

Sensitivity of the Covered Employer's Proportionate Share of the Net LODA OPEB Liability to Changes in the Discount Rate

The following presents the covered employer's proportionate share of the net LODA OPEB liability using the discount rate of 3.56%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.56%) or one percentage point higher (4.56%) than the current rate:

	1.00% Decrease (2.56%)	Current Discount Rate (3.56%)	1.00% Increase (4.56%)
Covered employer's proportionate share of the total LODA Net OPEB liability	<u>\$ 47,000</u>	<u>\$ 41,000</u>	<u>\$ 36,000</u>

Sensitivity of the Covered Employer's Proportionate Share of the Net LODA OPEB Liability to Changes in the Health Care Trend Rate

Because the Line of Duty Act Program (LODA) contains a provisions for the payment of health insurance premiums, the liabilities are also impacted by the health care trend rates. The following presents the covered employer's proportionate share of the net LODA OPEB liability using health care trend rate of 7.75% decreasing to 5.00%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a health care trend rate that is one percentage point lower (6.75% decreasing to 4.00%) or one percentage point higher (8.75% decreasing to 6.00%) than the current rate:

	1.00% Decrease (6.75% decreasing to 4.00%)	Health Care Trend Rates (7.75% decreasing to 5.00%)	1.00% Increase (8.75% decreasing to 6.00%)
Covered employer's proportionate share of the total LODA Net OPEB liability	<u>\$ 35,000</u>	<u>\$ 41,000</u>	<u>\$ 49,000</u>

LODA OPEB Plan Fiduciary Net Position

Detailed information about the Line of Duty Act Program (LODA) Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 10. Cumulative Effect of Change in Accounting Principle

As a result of implementation of GASB 75 and correction of revenue recognized, the beginning net position was restated as follows:

	<u>Governmental Activities</u>	<u>Business-type Activites</u>
Net Position as previously reported at June 30, 2017:	\$ 2,194,562	\$ 4,207,392
Implementation of GASB Statement No. 75	(72,536)	(29,464)
Prior period adjusment-correction of revenue recognized	<u>13,048</u>	<u>81,565</u>
Net Position as restated reported at June 30, 2017:	<u><u>\$ 2,135,074</u></u>	<u><u>\$ 4,259,493</u></u>

Note 11. Subsequent Events

Management has evaluated subsequent events through February 20, 2019, the date which the financial statements were available for issue.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CHATHAM, VIRGINIA

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year ended June 30, 2018

Exhibit 9

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
General property taxes	\$ 313,000	\$ 313,000	\$ 347,231	\$ 34,231
Other local taxes	152,000	152,000	192,552	40,552
Consumer utility tax	110,000	110,000	114,385	4,385
Permits, privilege fees, and regulatory licenses	102,000	102,000	96,363	(5,637)
Fines and forfeitures	33,000	33,000	27,385	(5,615)
Interest and investment revenue	1,000	1,000	3,264	2,264
Charges for service	78,000	78,000	82,650	4,650
Recovered costs	-	-	114,706	114,706
Intergovernmental	36,000	36,000	59,748	23,748
Miscellaneous	32,300	32,300	33,307	1,007
Total revenues	857,300	857,300	1,071,591	214,291
Expenditures:				
Current:				
General government administration	163,605	163,605	149,003	14,602
Judicial administration	282,620	282,620	262,086	20,534
Public safety	31,200	31,200	25,928	5,272
Public works	335,050	335,050	349,353	(14,303)
Cemetery maintenance	10,170	10,170	9,923	247
Parks, recreation, and cultural	25,300	25,300	36,411	(11,111)
Debt service:				
Principal and interest retirement	66,900	66,900	192,522	(125,622)
Total expenditures	914,845	914,845	1,025,226	(110,381)
Excess (deficiency) of revenues over (under) expenditures	(57,545)	(57,545)	46,365	103,910
Other financing sources (uses):				
Proceeds from note issued	-	-	48,684	(48,684)
Operating transfers in	71,245	71,245	10,600	60,645
Total other financing sources	71,245	71,245	59,284	11,961
Net change in fund balances			105,649	
Fund balance at beginning of year			764,314	
Fund balance at end of year			\$ 869,963	

TOWN OF CHATHAM, VIRGINIA

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
For the Year Ended June 30, 2018*

Exhibit 10

SCHEDULE OF CHANGES IN NET PENSION LIABILITY

	2017
Total pension liability	
Service costs	\$ 76,367
Interest	116,384
Changes of assumptions	(41,598)
Difference between expected and actual experience	(20,449)
Benefit payments, including refunds of employee contributions	(94,262)
Net change in total pension liability	36,442
Total pension liability - beginning	1,709,754
Total pension liability - ending (a)	<u>\$ 1,746,196</u>
Plan fiduciary net position	
Contributions - employer	\$ 24,539
Contributions - employee	31,395
Net investment income	222,405
Benefit payments, including refunds of employee contributions	(94,262)
Administrative expenses	(1,297)
Other changes	(197)
Net change in plan fiduciary net position	182,583
Plan fiduciary net position - beginning	1,832,401
Plan fiduciary net position - ending (b)	<u>\$ 2,014,984</u>
Political subdivision's net pension (asset) - ending (a) - (b)	<u>\$ (268,788)</u>
Plan fiduciary net position as a percentage of the total pension liability	115.39%
Covered-employee payroll	\$ 518,010
Political subdivision's net pension liability as a percentage of covered-employee payroll	(51.89%)

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Date	Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions	Contribution Deficiency (Excess)	Employer's Covered Employees Payroll	Contribution as a % of Covered Employees Payroll
2015	\$ 38,643	\$ 38,643	\$ -	\$ 637,685	6.06%
2016	\$ 41,169	\$ 41,169	\$ -	\$ 656,605	6.27%
2017	\$ 27,905	\$ 27,905	\$ -	\$ 696,769	4.00%
2018	\$ 20,040	\$ 20,040	\$ -	\$ 518,010	3.93%

Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, only 2015 - 2018 data is available. However, additional years will be included as they become available.

TOWN OF CHATHAM, VIRGINIA

NOTES TO SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
For the Year Ended June 30, 2018*

Exhibit 10

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

*The amounts presented have a measurement date of the previous fiscal year end.

TOWN OF CHATHAM, VIRGINIA

SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
GROUP LIFE INSURANCE PROGRAM
For the Year Ended June 30, 2018 *

Exhibit 11

	<u>2018</u>
Employer's proportion of the net GLI OPEB liability (asset)	0.00344%
Employer's proportionate share of the net GLI OPEB liability (asset)	\$ 52,000
Employer's covered payroll	\$ 520,783
Employer's proportionate share of the net GLI OPEB liability (asset) as a percentage of its covered payroll	9.98%
Plan fiduciary net position as a percentage of the total GLI OPEB liability	48.86%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

*The amounts presented have a measurement date of the previous fiscal year end.

SCHEDULE OF EMPLOYER CONTRIBUTIONS
GROUP LIFE INSURANCE PROGRAM
For the Years Ended June 30, 2009 through 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2018	\$ 2,708	\$ 2,708	\$ -	\$ 520,783	0.52%
2017	\$ 3,298	\$ 3,298	\$ -	\$ 634,190	0.52%
2016	\$ 3,155	\$ 3,155	\$ -	\$ 657,295	0.48%
2015	\$ 3,061	\$ 3,061	\$ -	\$ 637,686	0.48%
2014	\$ 2,987	\$ 2,987	\$ -	\$ 622,232	0.48%
2013	\$ 2,843	\$ 2,843	\$ -	\$ 592,476	0.48%
2012	\$ 1,555	\$ 1,555	\$ -	\$ 555,488	0.28%
2011	\$ 1,576	\$ 1,576	\$ -	\$ 563,063	0.28%
2010	\$ 1,005	\$ 1,005	\$ -	\$ 372,096	0.27%
2009	\$ 1,285	\$ 1,285	\$ -	\$ 476,093	0.27%

TOWN OF CHATHAM, VIRGINIA

NOTES TO SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
GROUP LIFE INSURANCE PROGRAM
For the Year Ended June 30, 2018

Exhibit 12

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest ten locality employers – general employees

Largest Ten Locality Employers - General Employees

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal rates	Adjusted termination rates to better fit experience at each age and service year
Disability rates	Lowered disability rates
Salary scale	No change
Line of duty disability	Increased rate from 14% to 20%

Non-largest ten locality employers – general employees

Non-Largest Ten Locality Employers - General Employees

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal rates	Adjusted termination rates to better fit experience at each age and service year
Disability rates	Lowered disability rates
Salary scale	No change
Line of duty disability	Increased rate from 14% to 15%

TOWN OF CHATHAM, VIRGINIA

NOTES TO SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
GROUP LIFE INSURANCE PROGRAM
For the Year Ended June 30, 2018

Exhibit 12

Largest ten locality employers – hazardous duty employees

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Lowered retirement rates at older ages
Withdrawal rates	Adjusted termination rates to better fit experience at each age and service year
Disability rates	Increased disability rates
Salary scale	No change
Line of duty disability	Increased rate from 60% to 70%

Non-largest ten locality employers – hazardous duty employees

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Increased age 50 rates and lowered rates at older ages
Withdrawal rates	Adjusted termination rates to better fit experience at each age and service year
Disability rates	Adjusted rates to better match experience
Salary scale	No change
Line of duty disability	Decreased rate from 60% to 45%

TOWN OF CHATHAM, VIRGINIA

SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
LINE OF DUTY ACT PROGRAM
For the Year Ended June 30, 2018*

Exhibit 13

	<u>2018</u>
Employer's proportion of the net LODA OPEB liability (asset)	0.01578%
Employer's proportionate share of the net LODA OPEB liability (asset)	\$ 41,000
Covered-employee payroll	\$ 148,889
Employer's proportionate share of the net LODA OPEB liability (asset) as a percentage of its covered-employee payroll	27.54%
Plan fiduciary net position as a percentage of the total LODA OPEB liability	1.30%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

*The amounts presented have a measurement date of the previous fiscal year end.

**The contributions for the Line of Duty Act Program are based on the number of participants in the Program using a per capita-based contribution versus a payroll-based contribution. Therefore, covered-employee payroll is the relevant measurement, which is the total payroll of the employees in the OPEB plan. However, when volunteers and part-time employees make up a significant percentage of the employer's members in the plan, the employer may determine covered-employee payroll is misleading and, therefore, not applicable for disclosure. See GASB codification section P50.728-1 for related guidance.

TOWN OF CHATHAM, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
LINE OF DUTY ACT PROGRAM
For the Year Ended June 30, 2018*

Exhibit 14

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Employees in the largest ten locality employers with public safety employees

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Lowered retirement rates at older ages
Withdrawal rates	Adjusted termination rates to better fit experience at each age and service year
Disability rates	Lowered disability rates
Salary scale	No change
Line of duty disability	Increased rate from 60% to 70%

Employees in the non-largest ten locality employers with public safety employees

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Increased age 50 rates and lowered rates at older ages
Withdrawal rates	Adjusted rates to better fit experience at each age and service year
Disability rates	Adjusted rates to better match experience
Salary scale	No change
Line of duty disability	Decreased rate from 60% to 45%

OTHER SUPPLEMENTARY INFORMATION

TOWN OF CHATHAM, VIRGINIA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2018

Exhibit 15

	<u>Permanent Fund</u>
	<u>Perpetual Care</u>
ASSETS	
Cash - restricted	\$ 229,394
Due from other funds	<u>140,792</u>
Total assets	<u><u>\$ 370,186</u></u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Total liabilities	<u>\$ -</u>
Fund balances:	
Reserved for:	
Perpetual care	<u>370,186</u>
Total fund balances	
Total liabilities and fund balances	<u><u>\$ 370,186</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHATHAM, VIRGINIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2018

Exhibit 16

	<u>Permanent Fund</u>
	<u>Perpetual Care</u>
Revenues:	
Interest and investment revenue	\$ 802
Sale of cemetery lots	<u>26,500</u>
Total revenues	<u>27,302</u>
Total expenditures	<u>-</u>
Excess of revenues over expenditures	<u>27,302</u>
Other financing sources:	
Operating transfers out	<u>(10,600)</u>
Total other financing sources	<u>(10,600)</u>
Net change in fund balances	16,702
Fund balance at beginning of year	<u>353,484</u>
Fund balance at end of year	<u><u>\$ 370,186</u></u>

The accompanying notes are an integral part of the financial statements.

COMPLIANCE SECTION

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Members of the Town Council
Town of Chatham, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Chatham, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Town of Chatham, Virginia's basic financial statements and have issued our report thereon dated February 20, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Chatham, Virginia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Chatham, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Chatham, Virginia's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in a separate letter, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the separate letter to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the separate letter to be significant deficiencies.

Compliance

As part of obtaining reasonable assurance about whether the Town of Chatham, Virginia's financial statements and schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harris Harvey Neal & Co. LLP

Danville, Virginia
February 20, 2019